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Coherence, coordination and cooperation in the context of financing for sustainable development and the post-2015 development agenda

Note by the Secretary-General*

Summary

The present note provides background information and suggested points for reflection to inform discussion on the following selected themes:

- (a) World economic situation and prospects in the wake of the world financial and economic crisis;
- (b) Financing for sustainable development, including through leveraging private capital, in the context of the follow-up to the outcome of the United Nations Conference on Sustainable Development held in Rio de Janeiro, Brazil, from 20 to 22 June 2012;
- (c) Global partnership for development in the context of the post-2015 development agenda.

* The present note was prepared in consultation with the staff of the major institutional stakeholders involved in the financing for development process. Responsibility for its content, however, is solely that of the United Nations Secretariat.



I. World economic situation and prospects in the wake of the world financial and economic crisis

Global economic outlook

1. Despite recent improvements in world financial markets, five years after the eruption of the global financial crisis, the world economy is still struggling to recover. According to the United Nations publication *World Economic Situation and Prospects 2013*,¹ growth of world gross domestic product (GDP) is forecast to reach 2.4 per cent in 2013 in the baseline estimates. That constitutes only a slight improvement from the estimated growth of 2.2 per cent in 2012, when the world economy saw a renewed slowdown synchronized across countries at every level of development.
2. Weaknesses in the major developed economies remain at the root of the slow global recovery. Many developed countries, especially in the euro area, continue to experience sovereign debt problems, banking fragility and pressures for fiscal tightening. Several European economies and Japan are already in their second recession in just a few years, and their outlook remains challenging. The economy of the United States of America also weakened during 2012, and the growth prospects for 2013 remain sluggish.
3. Average growth for developing countries is forecast to be 5.1 per cent in 2013, marginally higher than 4.7 per cent in 2012. A number of emerging economies, such as Brazil, China and India, which managed to recover rapidly in the aftermath of the global financial crisis, experienced a significant slowdown in growth in 2012. That was partially due to spillovers from developed countries, through weaker trade flows and heightened volatility in capital flows and commodity prices. In some instances, it was also due to a marked slowdown in domestic demand, reflecting lagged effects from past tightening of monetary policy (South Asia and East Asia), structural bottlenecks (South Asia, Brazil, Africa), and political and regulatory uncertainties (South Asia, parts of Latin America, Africa, parts of East Asia).
4. The global jobs crisis has continued unabated. In many developing countries, the share of working poor and those with vulnerable jobs remains high, with youth unemployment and gender disparities continuing to be key policy concerns. The global slowdown also implies a slower pace of poverty reduction and a narrowing of fiscal space for investments in education, health, basic sanitation and other areas that are critical for achieving the Millennium Development Goals, especially for the least developed countries. Those countries remain highly vulnerable to commodity price shocks and face reduced access to external financing, in particular because of a scaling back of development assistance in some donor countries.
5. World trade continued to grow, albeit more moderately (3.2 per cent), in 2012 than in 2011 (6.4 per cent). Certain changes in trade patterns became more pronounced in the post-crisis years, such as the growing weight of developing countries in world trade, particularly through South-South trade. Many developing countries, especially those in the Asian region, greatly benefited from increasing participation in global/regional supply chains to sustain export-led growth and attract foreign direct investment. Nevertheless, there are concerns that unchecked

¹ United Nations publication, Sales No. E.13.II.C.2.

growth of supply chains could result in wider development gaps among and within developing countries, as well as have environmentally suboptimal implications.

6. Global imbalances, characterized by large savings surpluses in some economies and deficits in others, narrowed markedly in the aftermath of the global financial crisis. However, the rebalancing has hardly been a benign process, having resulted mainly from a weakening in external demand from deficit countries, rather than an increase in external demand from surplus countries. Weakness in developed economies and extremely high global liquidity brought on by exceptional monetary policy measures has depressed yields in some developed countries to close to zero. Although causality is not established, rising global liquidity levels, owing to expansionary monetary policies in developed economies, have been cited as contributing to the volatility of primary commodity prices, hot money inflows to developing countries, and currency appreciation pressures in emerging market economies.

7. Nonetheless, measurable improvement has been witnessed in world financial markets since late 2012. Equity prices in many countries have moved notably higher, with the exception of some emerging markets. However, while the major indices of the United States have already surpassed the peak levels registered prior to the eruption of the global financial crisis, stock market values in Europe, Japan and many emerging markets are still far below their peaks. Furthermore, those improved financial market indicators are partially due to high global liquidity and have not yet been associated with sustained improvements in the real economy and employment.

8. There have also been improvements in debt markets. Bond yields for the European countries under debt distress have fallen, with the spread of Spanish 10-year bonds over those of Germany falling from 630 basis points in July of 2012 to 350 in January 2013. Recently Spain was able to raise 7 billion euros in a successful 10-year bond sale at this far lower yield, while Portugal returned to the bond market for the first time since having been bailed out in 2011. In addition, bank lending in the United States continued to rise, and a number of banks in Europe decided to pre-pay the long-term loans they had borrowed from the European Central Bank. Prior to the eruption of the crisis in Cyprus, various measures of volatility in financial markets had also subsided. However, the proposed bank tax in the European Union/International Monetary Fund package for Cyprus to restructure its banks disturbed global financial markets somewhat in late March, underscoring the vulnerability of the European Monetary Union to adverse economic and political events.

Prospects across major economies and regions

9. Among developed economies, the economy of the United States continues to struggle in the aftermath of the sub-prime mortgage crisis of 2007-2008. GDP growth in the United States is forecast to be 1.7 per cent in 2013, lower than 2.1 per cent estimated for 2012. While a full-blown fiscal cliff was averted in early 2013, uncertainties remain over long-run fiscal sustainability. At the same time, automatic spending cuts (sequestration) have recently been activated and real government spending is estimated to decline by 4 per cent in 2013, which will impact near-term GDP growth. On the positive side, there are nascent signs of a recovery in the housing sector. Additional policy support comes in the form of the new third round of quantitative easing. The United States Federal Reserve recently announced that it

would continue quantitative easing until the unemployment rate dropped to 6.5 per cent, or the projected inflation rate for the next 12 months rose to 2.5 per cent. Although the Federal Reserve has the dual mandate of promoting full employment and stable prices, this is the first time in history that a central bank has set a numerical target on the unemployment rate for its monetary policy.

10. Japan's economy experienced strong growth in the first quarter of 2012, but then fell back into recession in the second half of the year, with deflationary conditions prevailing. It is expected to climb out of the recession in 2013, but growth will likely remain weak in 2013-2014. The Bank of Japan has expanded the size of its quantitative easing programme and raised its inflation target to 2 per cent. The new monetary policy stance has led to an 18 per cent depreciation of the yen against the dollar and the euro since mid-October. This has increased Japan's competitiveness, though some Governments and analysts have expressed concerns on competitive devaluations and "currency wars". In addition, bucking the trend of fiscal tightening in most developed economies, the Government of Japan endorsed a new stimulus package of 20.2 trillion yen in January 2013, including 10 trillion yen of extra government spending (2 per cent of GDP), to be financed largely by issuing bonds. That has increased the risk of future debt sustainability issues, as public debt is already 230 per cent of GDP. However, one reason that debt indicators are so high is because of the long period of anaemic economic growth. If the new measures are successful at stimulating growth, this risk will subside somewhat, as debt indicators (which are calculated as a percentage of GDP) should improve.

11. In the euro area, the sovereign debt crisis and attendant fiscal austerity programmes remain the dominant forces depressing growth. GDP is estimated to have declined by 0.5 per cent in the euro area in 2012, with a further drop by 0.3 per cent expected in 2013. A number of new policy initiatives were taken by the euro area authorities in 2012, including the Outright Monetary Transactions programme and steps towards greater fiscal integration and coordinated financial supervision and regulation. Those measures address some of the defects in the original design of the European Monetary Union. Significant as they may be, however, they are not sufficient to boost economic demand in the short run, and the implementation will be subject to significant uncertainties.

12. In the new States members of the European Union (EU), the ongoing troubles in the euro area led to a slowdown in growth and a deterioration of the region's economic prospects. Aggregate GDP of the new EU members expanded by 1.2 per cent in 2012 and is expected to accelerate to a still moderate rate of 2.0 per cent in 2013 amid numerous uncertainties and risks. Some of the new EU members, such as the Czech Republic, Hungary and Slovenia, experienced negative annual economic growth in 2012. In other countries, growth was positive, but subdued. For example, GDP growth in Poland was 2 per cent in 2012, down from 4.3 per cent a year earlier.

13. In South-Eastern Europe, real economic activity in 2012 remained below the level achieved in 2008 before the onset of the global financial crisis. After a very weak recovery in 2010 and 2011, aggregate GDP declined by 0.6 per cent in 2012, and is forecast to recover by only 1.2 per cent in 2013, owing to weakness in both external and internal demand. Exceedingly high rates of unemployment that persisted even before the global crisis are expected to continue for several more years.

14. Among economies in transition, GDP in the Commonwealth of Independent States and Georgia increased by 3.8 per cent in 2012, and growth is expected to

remain at a similar level in 2013, well below potential. Economic performance has weakened in most countries, including the largest economy, the Russian Federation, which continues to have a major influence on other countries in the region. The region continues to face the risk of a deterioration of the global situation, particularly an escalation of the crisis in Europe, its main economic partner.

15. Among developing countries, Africa's economic growth (excluding Libya) will see a rebound to 4.5 per cent in 2013 compared to 3.4 per cent in 2012. Key factors underpinning Africa's strong growth prospects include solid growth in oil-exporting countries, supported by increased oil production and continued high prices as well as increased fiscal expenditure, especially on infrastructure. Despite the positive growth picture, the employment situation remains a major problem across the region, both in terms of number and the quality of jobs being generated. In addition, aid flows to Africa are expected to stabilize or even decline in 2013 and 2014 owing to the global economic slowdown and fiscal difficulties in many donor countries.

16. In East Asia, sluggish demand from developed economies and a sharper-than-expected slowdown in China weighed on economic activity in 2012. The region's GDP expanded by 5.8 per cent, down from 7.1 per cent in 2011, with economic growth in China also slowing to a decade-low of 7.8 per cent. The region's higher-income and export-dependent economies — the Hong Kong Special Administrative Region of China, the Republic of Korea, Singapore and Taiwan Province of China — saw a particularly sharp drop-off in GDP growth in the face of weakening global demand. In contrast, solid growth was experienced by Indonesia, Malaysia, the Philippines and Thailand, where robust domestic consumption and investment demand largely offset lower net exports. GDP growth in the region is forecast to pick up to 6.2 per cent in 2013, supported by a modest recovery in external demand and more expansionary monetary and fiscal policy.

17. In South Asia, economic growth slowed in 2012. After growing by 5.8 per cent in 2011, the region's GDP expanded by 4.4 per cent in 2012, the slowest pace in a decade. Persistent high inflation, political uncertainties, and transport and energy constraints weighed on both household consumption and business investment. Exports were negatively affected by the slowdown in key international markets. India's economy grew by 5.5 per cent in 2012, down from more than 9.0 per cent in 2010. In Bangladesh and Sri Lanka, economic conditions have remained largely favourable. However, the scope for macroeconomic policies to support growth is limited, as inflation continues to be elevated and fiscal deficits remain large. Regional growth is expected to accelerate moderately, but well below potential. Led by a gradual recovery in India, economic activity in South Asia is projected to increase by 5.1 per cent in 2013 and 5.7 per cent in 2014.

18. In Western Asia, economic performance diverged across countries. Most oil-exporting countries experienced robust though decelerating growth, supported by record-high oil revenues and government spending. By contrast, economic activity weakened sharply in oil-importing countries, burdened by higher import bills, declining external demand and shrinking policy space. The divergence is expected to continue in 2013. GDP growth in the region is estimated to have declined from 6.7 per cent in 2011 to 3.3 per cent in 2012 and is forecast to remain at the same level in 2013. While medium-run fiscal balances remain strong in many Gulf countries, policy buffers became even more limited in oil-importing countries, with the exception of Israel and Turkey.

19. In Latin America and the Caribbean, economic conditions deteriorated in 2012 as the region saw a slowdown in exports, and some countries, such as Argentina and Brazil, faced domestic problems in promoting growth, and fiscal cliff uncertainties in the United States weighed on economic activity in the last quarter of the year. GDP growth decelerated to 3.1 per cent in 2012, from 4.3 per cent in 2011 and 6.0 per cent in 2010. Despite the slowdown, labour market indicators continued to perform well. The region is expected to see a modest acceleration in growth to 3.9 per cent in 2013, though the outlook is subject to a number of risks.

Major downside risks and the need for greater policy coordination

20. The United Nations baseline outlook presented above is subject to major uncertainties and downside risks. In particular, a possible worsening in the euro area crisis continues to be the biggest threat to global growth. In addition, there is a risk that the recent across-the-board spending cuts (sequestration) in the United States will continue throughout the year, leading to a larger impact on the economy than currently assumed in the baseline forecast. Moreover, it is possible that the slowdown witnessed in a number of large emerging market countries (including China, India and Brazil) could continue. Additional downside risks include the possible spiralling of geopolitical tensions and the possibility of a weather shock leading to a spiking in world food prices, given dangerously low stock-use ratios of basic grains.

21. There is a need for more forceful and concerted policy actions at both national and international levels to mitigate the major risks defined above. For instance, in the euro area, the piecemeal approach to dealing with the debt crises of individual countries of the past two years should be replaced by a more comprehensive and integrated approach that tackles the deep-set systemic crisis within the European Monetary Union. Similarly, in the United States, it is important that policymakers overcome political gridlock and prevent a sudden and severe fiscal contraction. It is also important that countries engage in stronger countercyclical policy stances aligned with medium-term measures when possible. In particular, fiscal policy across the world should become more countercyclical, more supportive of jobs creation and more equitable.

Suggested questions for discussion

1. What are the economic benefits and risks associated with the unconventional monetary policies recently undertaken in the United States, the European Union and Japan?
2. What have been the major effects of those policies on developing countries and economies in transition?
3. Which policy measures at the national, regional and global levels would be most effective in limiting potential negative spillover effects of those policies?
4. How can large emerging economies, including Brazil, China, India, the Russian Federation and South Africa, help to promote a return to stronger and more robust regional and global growth?
5. Which policy measures are most effective in tackling the jobs crisis in both developed and developing countries?

II. Financing for sustainable development, including through leveraging private capital, in the context of the follow-up to the outcome of the United Nations Conference on Sustainable Development, held in Rio de Janeiro, Brazil, from 20 to 22 June 2002

The need for a comprehensive strategy of financing for sustainable development

22. An effective strategy of financing for sustainable development should support inclusive economic development that is environmentally, economically and socially sustainable. Given the size of financing needs for sustainable development, it is clear that official sources of financing will not be sufficient. Even if all concerned donor governments were to meet the target of 0.7 per cent of gross national income (GNI) in official development assistance (ODA), which would provide \$300 billion a year, and also adhere to the Copenhagen Accord, which commits to the provision of \$100 billion a year in climate finance by 2020, and even if those amounts were supplemented by new and innovative sources of financing, there would still be a significant financing shortfall.²

23. Yet, although estimates of the financing needs are extremely large, they represent only a relatively small portion of total global savings. In 2011, global financial assets stood at \$218 trillion. Even in the light of turbulent markets following the world financial and economic crisis and deleveraging across the developed world, global financial assets have grown by 10 per cent overall since the end of 2007 (i.e., by almost \$4 trillion annually).³ That implies that the financial system has the resources to finance sustainable development needs, but is not allocating those resources effectively to where they are needed most. Although reallocating the pool of global financial assets would prove challenging, redirecting a small percentage, say 5 per cent (or close to \$10 trillion), of this investment towards sustainable development would have an enormous impact.

24. An effective strategy of financing for sustainable development will also need to promote financial stability, as investors are unlikely to make the long-term investments necessary for sustainable development when there is risk of significant volatility. Furthermore, sustainable financial practices and long-term investments contribute to the stability of the financial system, so that stability and sustainability are mutually reinforcing.⁴ In addition, without a stable financial system the post-2015 development agenda risks being derailed by a sudden regional or global financial crisis.

Financing needs and challenges

25. Financing for sustainable development requires investments in a wide range of sectors, including agriculture, energy, transport and telecommunication, as well as

² *World Economic and Social Survey 2012* (United Nations publication, Sales No. E.12.II.C.1); United Nations, Department of Economic and Social Affairs, second International Development Cooperation Report, forthcoming.

³ McKinsey Global Asset Management Database in McKinsey Group and Company, "The Hunt for Elusive Growth: Asset Management in 2012" (2012).

⁴ United Nations Environment Programme (Finance Initiative, International Institute for Sustainable Development, "Financial Stability and Systemic Risk: Lenses and Clocks" (2012).

housing, health and education, in both developed and developing countries. The strategy will also need to finance the global commons (e.g., atmosphere, oceans, biodiversity and forests) that are critical for sustainable development, as well as climate financing. In addition, it is important to look at synergies and trade-offs of investment across sectors and clusters (e.g., water, agriculture, energy and land use).

26. Assessing total financing needs for sustainable development is a difficult task. Estimates of needs vary across sources, depending on the assumptions, and the scope of the studies. In addition, estimates across studies are not strictly comparable, as the underlying model-based scenarios tend to differ. There has been a proliferation of studies on required investment levels to achieve environmental sustainability. The Department of Economic and Social Affairs of the Secretariat estimated in 2011 that additional investments of \$1 trillion per year would be needed to develop new green energy systems alone.⁵ A more recent study across a wider array of sectors found that requirements for business as usual investment in infrastructure could run as high as \$5 trillion annually.⁶

27. Analyses on a country basis can also be used to give a more targeted estimate of needs across economic sectors. For example, a recent United Nations study⁷ of nine countries in Africa, East Asia and the Middle East with very different economic and social conditions found that additional revenues of between 5 and 26 per cent of GDP would be needed to achieve the Millennium Development Goals. Those results estimated Millennium Development Goals related to education, health, drinking water and sanitation, which have relatively good data for measuring their progress, and therefore underestimate the total amount of resources necessary for achieving sustainable development.

28. Financing gaps are especially large in economic areas that the private sector has not found attractive on a risk-reward basis compared to other investment opportunities. In particular, there is insufficient financing in at least four critical areas for sustainable development: (a) long-term investments, including infrastructure; (b) riskier investments, including low-carbon, innovation, and the financing of small and medium-sized enterprises; (c) financing of the global commons and other areas of international cooperation; and (d) additional financing of social needs.

29. There is an ever-increasing need for long-term financing, especially for infrastructure. It is estimated that a "business as usual scenario" will require \$57 trillion in infrastructure investment by 2030 to keep pace with global GDP growth, with additional financing needed to meet development goals in emerging markets, as well as to make infrastructure more resilient to climate change.⁸ However, the long time frame necessary for most infrastructure investments is outside the investment parameters of many investors, even those considered to be "long-term investors". While the liability structure of longer-term institutional investors, such as defined benefit pension plans and life insurers, averages around 10 to 15 years, the actual duration of their portfolios is generally much shorter

⁵ *World Economic and Social Survey 2011* (United Nations publication, Sales No. E.11.II.C.1).

⁶ www3.weforum.org/docs/WEF_GreenInvestment_Report_2013.pdf.

⁷ Sánchez, Vos, Inoue and Kabulova, "Financing human development: a comparative analysis" in Sánchez and Vos, *Financing Human Development in Africa, Asia and the Middle East*, forthcoming.

⁸ McKinsey Global Institute, "Infrastructure productivity: how to save \$1 trillion a year" (January 2013).

owing to the risk-return tradeoffs of many long-term investments versus other opportunities, as well as short-term performance incentives. Many institutional investors face additional constraints, including limitations on investing in illiquid assets, transaction costs to maintain a direct investment capability, and sector diversification requirements.

30. The financial crisis of 2008-2009 further shortened the investment horizon of many investors. Many institutional investors experienced difficulty refinancing their liabilities, which led them to reassess the extent to which they should undertake long-term illiquid investments and reduced their institutional tolerance for risk. The crisis also led to a massive deleveraging of the banking system and a reduction in credit, particularly by European banks, which has impacted the longer-term lending, including the syndicated bank lending market, which in the past had been an important financing tool in infrastructure in emerging market countries. While the pace of deleveraging has eased, pressures on international banks are expected to continue in the near term. The Third Basel Accord, which imposes higher capital charges for riskier investments, could further reduce the availability of long-term financing. Although the reforms do not specifically target long-term finance, they do raise the cost of riskier activities, including long-term loans. At the same time, local capital markets in many developing countries are not yet ready to fill the gap. Local capital markets in many developing countries have a short-term bias, so that many countries continue to have difficulty financing long-term needs associated with necessary investments in sustainable development domestically.

31. In particular, there is insufficient financing for low-carbon infrastructure projects and related technology development and innovation, owing to higher risks and lower expected returns over the life of the project. Similarly, there is insufficient financing for innovation and emerging technologies, which carry high risks that are often difficult to measure and price. New technologies generally have high operating expenses and are often less reliable in the early stages of development. Credit for small and medium-sized enterprises, which in many countries are main drivers of innovation, employment and growth, also remains constrained in many countries. Frequently, such enterprises are too large for the traditional moneylenders and microcredit agencies but considered to be too risky by the banking sector. Alternative vehicles for financing innovative start-ups, such as angel investors and venture capital funds, are largely missing in developing countries.

32. The Aid for Trade initiative seeks to enhance the supply-side and productive capacity of developing countries and to strengthen their trade-related infrastructure, so as to allow them to take advantage of trade and the market access opportunities. The international community has continued to mobilize Aid for Trade resources. However, the outlook for Aid for Trade too will be affected by the continuing tight government budgets in member countries of the Organization for Economic Cooperation and Development (OECD), which will put pressure on aid levels in the coming years.

33. There is also insufficient financing for maintenance and awareness-building of the global commons and other areas of international cooperation crucial for sustainable development. In addition to financing needed for climate change mitigation and adaptation, there are significant financing needs related to cross-border health risks associated with globalization, in particular the fight against the

HIV/AIDS pandemic, apart from domestic health, education, gender and other social needs.

34. The ongoing deliberations on the post-2015 development objectives have highlighted the importance of establishing a new paradigm for growth that would ensure social inclusiveness and job opportunities for all. That implies targeted investments in human and social capital on top of investments in natural capital and green physical capital (e.g., clean technologies). A strategy for sustainable development financing must focus on enhancing the access of the poor, women and other vulnerable and marginalized segments of society to services, technologies, resources and opportunities.

Mobilizing financial resources for sustainable development

35. Financing for sustainable development will need to utilize all available forms of financing, including public and private and cross-border and domestic sources of finance. A fundamental challenge will be to ensure complementarities across those different sources of finance, as each type of financing has unique investment objectives, fiduciary responsibilities and associated incentives. Consultations on the post-2015 development agenda should be geared towards a better understanding of these interlinkages in order to design policies that can effectively leverage private financing with public resources.

36. Attracting private sector investment is a crucial part of any sustainable development financing strategy. Institutional investors in OECD countries alone held over \$70 trillion in assets, with sovereign wealth funds and public pension reserve funds holding another \$10 trillion (OECD, 2012). Pension funds in emerging markets grew from an estimated \$422 billion in 2001 to \$1.4 trillion by June 2010, with the potential for significant growth in this area.⁹

37. However, to date, only around 1 per cent of the asset allocation of the pension funds is invested in infrastructure, with low-carbon infrastructure at around 3 per cent of that portion of allocation.¹⁰ Although there are small (and growing) pockets of socially conscious investors, most private capital will remain driven by the profit motive, generally measured over a relatively short time horizon. As a result, the private sector will underinvest in the public good when profits are expected to underperform other investment opportunities on a risk-adjusted basis, particularly in the short term. Public sector policies will need to be designed to leverage private finance through risk sharing and by better aligning private incentives with public goals.

38. Policies should encourage longer-term investment horizons, include performance fees based on multi-year returns, clawbacks, co-investments, and new measures of accounting that emphasize longer-term value (vs. mark-to-market accounting, which incorporates short-term volatility). While civil society could demand these changes from pension fund managers in the interest of long-term performance, regulatory measures can also be used and are potentially more effective. Initiatives to incentivize investment and lending to small and medium-sized enterprises can include regulatory measures, as well as loans, such as

⁹ J.P. Morgan, "EM Moves into the Mainstream as an Asset Class", Emerging Markets Research, J.P. Morgan Securities LLC (New York, 2010).

¹⁰ Bloomberg New Energy Finance (2013).

through the Small Business Lending Fund and Small Business Administration loans and grants in the United States.

39. Policy initiatives that help to incentivize long-term investment in low-carbon innovation, technologies and infrastructure include: (a) pricing mechanisms, such as cap and trade or carbon taxes; (b) quantity targets through regulations; and (c) lowering the cost and/or risk, through subsidies, feed-in-tariffs, credit enhancements, guarantees, insurance or public-private partnerships. Such partnerships, guarantees and insurance have become increasingly looked to as a mechanism to leverage official resources with private finance through risk-sharing between the public and private sectors. Such mechanisms can help to overcome the constraints that have prevented domestic banks and institutional investors from financing innovative projects with the potential to promote sustainable development. In many countries, national development banks play an important catalytic role.

40. Development of a sound and broad-based financial sector in developing countries is essential for the effective mobilization and channelling of domestic resources to productive activities in these countries. There are indications of enhanced domestic financial intermediation in many developing countries. Domestic credit to the private sector in low- and middle-income countries increased from 55 per cent of GDP in 2003 to 75 per cent in 2011, albeit with considerable differences across developing regions. Nonetheless, in many developing countries, considerable challenges remain in channelling resources to the key areas for long-term and sustainable development, including investment infrastructure, innovation and small and medium-sized enterprises. Improved governance and institutions can help to create an enabling environment to attract direct investment. The development of long-term local currency bond markets can also be used to help to attract savings, including from domestic pension funds. However, such domestic markets need to be monitored to minimize risks associated with short-term volatile capital inflows, which are often attracted to high-yielding investments in developing countries.

41. In addition, in order to enhance financial sector performance in developing countries, the concept of financial inclusion has gained higher priority on the policy agenda. The concept is based on the notion that universal access to a wide range of financial services, including credit, savings and other instruments, by poor and vulnerable population groups and small and medium-sized enterprises, is beneficial for economic and social development and domestic resource mobilization. Recent opportunities created by mobile money deployments should be fully harnessed in this context. There is no one-size-fits-all approach to financial inclusion. However, experience has shown that the following principles are crucial; financial inclusion has to be: (a) well integrated in the overall financial sector policy framework; (b) anchored in sound regulations and a sense of corporate social responsibility that ensures the health of the banking system and minimizes systemic risks; (c) backed by political commitment of the federal, provincial and local government and relevant sector agencies; and (d) embedded in a healthy and conducive environment for financial intermediation that targets the poor.

42. The role of domestic resource mobilization is crucial in financing the above-mentioned and other initiatives. However, government revenues remain low in many developing countries, with tax-to-GDP ratios for low-income countries averaging around 11 per cent. Appropriate tax policies, modernized, transparent and

equitable tax systems, effective tax administrations, broadening of the tax base and combating tax evasion are central elements in raising public revenues. Also, international tax cooperation, including its institutional arrangements, should be further strengthened in order to curb tax avoidance and evasion and illicit flows.

43. Domestic resource mobilization efforts must be complemented by an enabling international environment. Consequently, it is a source of disappointment for many developing countries that, in 2011, total ODA flows, net of debt cancellation, fell in real terms for the first time since 1997, owing to greater fiscal austerity and sovereign debt problems in developed countries. ODA will remain crucial, and all countries should work towards a timely implementation of their commitments. Regional and multilateral development banks can also play a catalytic role in mobilizing long-term investment financing. Moreover, they can fulfil an important countercyclical role that can help to reduce volatility associated with financial markets. South-South cooperation is also playing an increasingly important role in financing, as is philanthropy.

44. Innovative mechanisms, such as financial transactions taxes, carbon taxes and similar mechanisms, can potentially be used to raise additional substantial new sources of public financing, which should be accounted for as additional to traditional ODA. However, realizing the potential of those mechanisms on a large scale will require international agreement and corresponding political will, both to tap sources as well as to ensure allocation of revenues for sustainable development without compromising existing commitments. Innovative mechanisms could be particularly important for financing goals of international cooperation, including financing the global commons and climate financing.

Streamlining existing international financing initiatives into a broader financing strategy

45. To date, climate financing has evolved largely on a separate track from conventional development finance. In part, that arises from the concern that climate financing for developing countries should be additional to ODA, as a reflection of the Rio de Janeiro principle of “common but differentiated responsibilities and respective capabilities” in the United Nations Framework Convention on Climate Change.¹¹ However, a comprehensive financing strategy will need to integrate all its dimensions better into mainstream financing.

46. The Copenhagen Accord (December 2009) and Cancún Agreements (December 2010) committed developed countries to jointly mobilizing \$30 billion in Fast-start Finance over the years 2010 to 2012; and \$100 billion a year by 2020. The Copenhagen Accord refers, in decision 2/CP.15, to “a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance”, meaning that a large array of sources of climate finance could be considered, including public grants and loans, carbon offsets, innovative financing mechanisms or leveraged direct private investments. At the Doha Conference of the Parties in December 2012, parties could not agree on bridging financial arrangements for the period to the 2020 commitment. Similarly, no agreement was reached on a pathway to meeting that commitment.

¹¹ United Nations, *Treaty Series*, Vol. 1771, No. 30822.

47. The Conference of Parties in Cancún decided to establish a Green Climate Fund to channel new and predictable financial resources to developing countries to support mitigation of greenhouse gases and adaptation to the impacts of climate change. The Fund is entering a complex and evolving global climate finance architecture, with over 50 international public funds in operations and an increasing regionalization of market-based mechanisms. A challenge for the Board of the Green Climate Fund will be to decide whether the Fund should aim to facilitate some harmonization among climate funds and centralize a slice of international public climate finance, or complement and work in parallel to existing institutions. Ultimately, the answer to this question will depend on how much of the \$100 billion pledged in Copenhagen and Cancún will be provided in the form of public grants and loans, and how much of these public resources will pass through multilateral channels such as the Green Climate Fund. The response to these questions will also influence options for a better integration of climate finance and sustainable development finance.

48. The outcome document of the United Nations Conference on Sustainable Development, "The future we want" (General Assembly resolution 66/288, annex), recognized the need for significant mobilization of resources to promote all three pillars of sustainable development. For this purpose, Governments agreed to establish an intergovernmental committee of experts to propose options for an effective sustainable development financing strategy. A dedicated working group has been created under the United Nations System Task Team on the Post-2015 United Nations Development Agenda, with the objective of mobilizing inputs from the United Nations system in support of the work of the committee.

Suggested questions for discussion

1. **Given the enormous financing needs associated with sustainable development, how can the large pool of existing assets be mobilized more effectively for social, economic and environmental purposes?**
2. **How can public resources, including official development assistance, leverage private sector investments for sustainable development? What role should insurance and guarantees play?**
3. **How can the international community promote a more stable international financial system that encourages the long-term investment needed to promote sustainable development?**
4. **What steps are necessary to ensure that innovative sources of financing and climate financing are additional to traditional ODA, and do not reduce incentives to meet the United Nations ODA target of 0.7 per cent?**
5. **What are the implications of a post-2015 development agenda that has a dual focus on poverty eradication and sustainable development for the relationship between traditional development cooperation and climate financing?**

III. Global partnership for development in the context of the post-2015 development agenda

Emergence of the global partnership for development

49. A renewed global partnership for development¹² in the context of the post-2015 development agenda should build on the strengths of the current global partnership for development, while going beyond its present framework to embrace the changing development landscape and enable transformative change.

50. Since 2000, the Millennium Development Goal framework has helped galvanize international efforts towards the implementation of internationally agreed development goals. The implementation of the Millennium Development Goals, and particularly Goal 8 on a global partnership for development, gained additional momentum with the outcome of the International Conference on Financing for Development, held in Monterrey, Mexico, from 18 to 22 March 2002, which engendered immediate gains for financing the Millennium Development Goals, particularly with regard to official development assistance.

51. In the above context, the Monterrey Conference marked the beginning of a new international approach to dealing with issues of development finance, which brought together all relevant stakeholders in a manner that was unprecedented in inclusiveness. Under the umbrella of the United Nations, all parties involved in the financing for development process contributed to creating a policy framework, the Monterrey Consensus, to guide their respective efforts to deal with issues of financing development, in a comprehensive manner, at the national, regional, international and systemic levels.

52. The above-mentioned framework was endorsed and expanded in the 2008 Doha Declaration on Financing for Development to include new challenges and emerging issues, such as the impact of the financial crisis, additional costs of climate change mitigation and adaptation and damage to the environment and expanding economic cooperation. Those emerging issues remain important challenges for global development, which should serve as a basis for the renewed global partnership underpinning the post-2015 development agenda.

Progress in implementing Goal 8 of the Millennium Development Goals on the global partnership for development

53. Goal 8 of the Millennium Development Goals set out commitments aimed at strengthening the global partnership for development in five priority areas: (a) ODA; (b) development of an open, rules-based, predictable, non-discriminatory trading and financial system; (c) management of the debt burden of developing countries; (d) access to affordable essential drugs in developing countries; and (e) new technologies for developing countries, especially information and communications. In addition, it emphasized the special needs of least developed countries, landlocked developing countries and small island developing States.

54. Despite the momentum generated through the financing for development process, progress on implementation of Goal 8 has been mixed. There are important

¹² United Nations System Task Team on the Post-2015 United Nations Development Agenda, "A renewed global partnership for development" (March 2013).

issues associated with the global partnership for development that need to be addressed to ensure the successful implementation of a post-2015 development agenda. Although ODA increased significantly from 2002, in the follow-up to Monterrey it fell by nearly 3 per cent in 2011 from its peak in 2010 following the world financial and economic crisis. Yet, the mobilization of resources, including official financing, is essential for the implementation of a post-2015 development agenda. For least developed countries, landlocked developing countries and small island developing States, which constitute the 91 most vulnerable States Members of the United Nations, ODA, along with an enabling global environment for development, will remain crucial. Accordingly, the international community should reaffirm its intent to fulfil its ODA commitments with regard to developing countries (0.7 per cent of GNI) and, in particular, least developed countries (0.15-0.20 per cent of GNI), including timelines for their implementation.

55. In trade, the global trading system today is a complex and fragmented one with over 300 bilateral, regional or interregional free trade agreements. One potential danger arising from the current proliferation of such agreements is that it may further marginalize least developed countries from the global economy, as they are rarely included in free trade agreements. It is thus crucial that the Doha Round of World Trade Organization negotiations be concluded, with a view to empowering the multilateral trading system to address the twenty-first century economic challenges, particularly those of least developed countries, landlocked developing countries and small island developing States. Looking ahead, Aid for Trade would be important in addressing the supply-side constraints faced by developing countries, especially least developed countries. At the same time, a new global partnership for development may explore a framework of South-South experience sharing and "soft rule-making" in trade in a way that maximizes the growth potential of least developed countries, landlocked developing countries and small island developing States. The upcoming World Trade Organization (WTO) Ministerial Conference to be held in Bali, Indonesia, in December 2013 would provide an important opportunity to conclude agreements and make progress in some of those areas, thereby providing a much-needed impetus to conclude the Doha Round.

56. The Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative provided debt relief to a number of low-income countries and freed up important resources for the attainment of the Millennium Development Goals. However, those international initiatives dealt with specific cases of debt relief, rather than setting up a framework for resolving debt distress. Twenty developing countries remain at high risk of debt distress. The global partnership should foster a dialogue on debt sustainability and on how to effectively deal with sovereign debt defaults and distress in a timely, equitable and less costly manner.

57. There remains a need for greater access to affordable essential medicines to accelerate the progress being made on the achievement of the health-related Millennium Development Goals. Wider use of the trade-related provisions set out in the intellectual property rights regulations of WTO, together with greater use of innovative mechanisms to lower costs and increased access to essential medicines in low- and middle-income countries, should be pursued as part of global efforts in this area.

58. While access to new technologies continues to expand globally, there is still a need to pick up the pace of efforts to increase access to and the affordability of the global Internet, in cooperation with the private sector. Technology transfer and access to green technologies and technologies for climate change mitigation and adaptation, disaster risk reduction and resilience are needed. In this context, special attention should be given to strengthening the domestic capabilities and the national innovation systems of developing countries.¹³

Need for a more effective and comprehensive global partnership for development

59. Despite the virtues of the Goal 8 framework in galvanizing efforts towards a more effective global partnership for development, there are several shortcomings that need to be addressed in the post-2015 development agenda. Goal 8 is conceptually different from the other Millennium Development Goals. While Goals 1 to 7 are people-centred, Goal 8 is best understood as an enabler to achieve the other goals. Indeed Goals 1 to 7 all require global partnerships for implementation, be it in the form of technology transfers to promote climate-friendly policies, debt relief to free up resources for social spending, or ODA for health interventions or leveraging resources of the private sector. In a renewed global partnership, the relationship of the partnership to other goals may need to be rethought.

60. Furthermore, Goal 8 does not specify quantified targets or dates, which makes it difficult to monitor. Indeed, Goal 8 monitoring only started in 2007, when the Secretary-General created the Millennium Development Goal Gap Task Force. Moreover, a number of qualitative issues are also missing in Goal 8. Improving predictability, reducing policy conditionality, addressing fragmentation, reducing the incidence of tied aid and safeguarding concessionality are not an explicit part of the Goal 8 framework.

61. Finally, Goal 8 does not fully reflect the balanced compact among States Members of the United Nations on actions to address the challenges of financing for development that has been embodied in the Monterrey Consensus. Building on Goal 8, the Monterrey Consensus and the Doha Declaration highlighted the potential for global partnerships in other important areas such as domestic resource mobilization and international tax cooperation, foreign direct investment, and innovative sources of development finance. Moreover, they recognized the centrality of addressing systemic issues to ensure coherence and consistency across the international, monetary, financial and trading systems in support of development.

62. Within the last 10 to 15 years, the global economic and environmental landscape has changed dramatically. Climate change has become a central issue on the international agenda, as have other environmental concerns relating to the maintenance of the global commons. The world financial and economic crisis has also brought to the fore a range of concerns, including those pertaining to unemployment, inequality and the importance of a stable international financial system. It has, furthermore, been accompanied by additional crises relating to food and energy security.

63. The last decade has also witnessed the emergence of important actors in the global arena. Most importantly, the increased economic importance of emerging economies has spurred South-South and regional cooperation and encouraged the

¹³ *World Economic and Social Survey 2011* (United Nations publication, Sales No. E.11.II.C.1).

formation of new informal bodies like the Group of 20. In addition, non-State actors, especially the private sector and civil society, are also playing an increasingly important role in development-related activities. Given those trends, it is imperative that the post-2015 development framework be anchored in a more inclusive, flexible and coherent system for global economic governance.

Towards a renewed global partnership through a reformed system of global economic governance

64. A renewed global partnership for development should address the existing shortcomings of Goal 8 and incorporate the new challenges outlined above, thereby building on the framework for cooperation put in place by the Monterrey Consensus, the Johannesburg Plan of Implementation and the Doha Declaration on Financing for Development. In particular, it is necessary to have greater accountability, cooperation and effective and coherent policymaking among Member States with regard to the framing, monitoring and implementation of the global partnership for development. The international community therefore needs to strengthen the institutional framework for international cooperation and coordination through reforming the existing system of global economic governance.
65. As a starting point, measures need to be set in place to enhance the accountability, effectiveness and coherence of the United Nations system at the intergovernmental, institutional and operational levels. In his report on global economic governance and development, the Secretary-General emphasized that utmost priority should be given to the implementation of the recommendations contained in the outcome document of the 2012 United Nations Conference on Sustainable Development, with a view to strengthening the institutional framework for sustainable development by integrating the three dimensions of development in a balanced manner and helping to implement commitments in the economic, social, environmental and related fields. He also recommended that coherence be ensured across various United Nations intergovernmental processes, including those relating to sustainable development, the post-2015 development agenda and financing for development (A/67/769, paras. 74 and 75).
66. There is a need to put in place a more robust monitoring and accountability mechanism to monitor progress in the implementation and fulfilment of commitments made by Member States in United Nations conferences. Member States took a first step in strengthening global mutual accountability, as an important element underpinning the global partnership for development, through the establishment of the Economic and Social Council annual ministerial review and the biennial high-level Development Cooperation Forum. However, a fully fledged mechanism of global mutual accountability with universal membership and multi-stakeholder participation has yet to emerge.
67. In his recent report on the strengthening of the Economic and Social Council, the Secretary-General proposed that a strengthened ministerial review could become a central venue for monitoring the implementation of the post-2015 development agenda, supported by the entire Economic and Social Council system (A/67/736-E/2013/7, para. 25). He also suggested that the Development Cooperation Forum, which had emerged as a mutual accountability platform, "could further expand its role as a driver for greater national and global accountability in development cooperation by promoting mutual accountability as an overarching principle in the

post-2015 development agenda" (ibid., para. 26). In addition, the establishment of the Global Partnership for Effective Development Cooperation at the margins of the Fourth High-Level Forum on Aid Effectiveness, held in Busan, Republic of Korea, from 29 November to 1 December 2011, marked another step towards supporting and ensuring monitoring and accountability of the effectiveness of development cooperation.

68. In addition, an effective system of global economic governance would also enhance the global partnership for development through ensuring the participation of all relevant global actors in international policymaking and dialogue. For instance, the Group of 20 should further strengthen its relationships with international institutions, such as the United Nations, non-Members and other relevant stakeholders. Furthermore, it is important to broaden and strengthen the involvement of developing countries in international economic decision-making and norm-setting and also make efforts to enhance engagement and partnerships with relevant non-State actors, like the private sector and civil society, in activities and dialogue pertaining to development. Those actions would go some way towards ensuring that the post-Goal 8 framework is anchored in a more inclusive, flexible and coherent system for global economic governance.

Suggested questions for discussion

1. What are the lessons learned from the current global partnership: successes to encourage and failures to avoid? Which are the most pressing new challenges and emerging issues that the global partnership for development needs to address? How should these be incorporated into the post-Goal 8 framework?
2. In the light of the new challenges and the changing development landscape, should a renewed global partnership for development build on the existing global partnership for development, or do we need a more fundamental rethink?
3. What key principles are needed to create new, or strengthen the existing, global partnerships that foster sustainable and inclusive growth and development at national, regional and international levels? How can a global partnership for development be best streamlined into the post-2015 development agenda? Should it be captured in a separate goal or linked to specific goals and targets?
4. How do we achieve global economic governance, including more robust accountability mechanisms, that would help to enhance the effectiveness of a renewed global partnership for development?
5. What should be the role of the Economic and Social Council in promoting a renewed global partnership for development in the context of the follow-up to the Millennium Development Goals and the elaboration of the post-2015 development agenda?